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FIRST COUNTRY COOPERATION FRAMEWORK FOR PERU (1997-2000)

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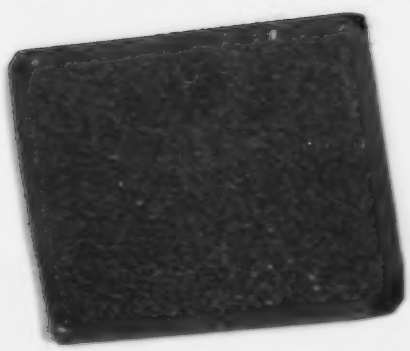

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INTRODUCTION

1. This country cooperation framework for Peru (1997-2000) includes a UNDP assessment of the national development situation and the contribution made by international cooperation. The national development policy, as defined by the Government and set forth in the President's messages to the nation and the Prime Minister's statement to Congress, was taken into consideration in preparing the framework.

I. DEVELOPMENT SITUATION FROM A SUSTAINABLE HUMAN DEVELOPMENT PERSPECTIVE

2. Over the past 40 years, Peru has experienced radical changes in the orientation of its economic model. In the 1950s, the economic model was based on the export of raw materials, a free market and a minimal entrepreneurial role for the State; large sectors of the population were socially marginalized. In the 1960s, an import-substitution model based on private enterprise was promoted which had little impact on employment and exports. In the 1970s, the military Government (1968-1980) promoted a socialized, State-run economic model, based on a high level of public investment, the introduction of social reforms and the nationalization of large corporations and public services. However, income and employment levels did not increase significantly and the problems of the predominance of the parallel or unstructured (informal) sector of the economy, proliferation of slums and urban marginalization grew worse.

3. When democracy was restored in the 1980s, the pressure of the external debt and the problems of an economy with a strong State presence gave rise to, among other things, growing inflationary pressures and recessionary trends. Hyperinflation increased prices by 7,650 per cent in 1990 and the country stopped paying its external debt and became cut off from the international financial system.

4. In 1990, per capita GDP reached its lowest level in the past 30 years (976 dollars at 1986 values), the purchasing power of wages declined by 69.3 per cent over the 1980 level and over half the population was considered to be living in poverty. Terrorist activities throughout the country had caused 25,000 deaths and losses totalling over 25 billion dollars. The country was almost ungovernable. Starting in 1990, the Government instituted an economic adjustment plan with the basic objective of overcoming inflationary pressures, creating conditions for the reactivation of production, reintegrating Peru into the international financial system and initiating a programme of structural reforms. The economic adjustment plan also set in motion a social compensation programme designed to reduce the impact of adjustment on the poorest population groups and initiated a national peace plan.

5. By 1996, the country had surmounted many of the economic and internal security problems that had existed at the beginning of the decade. It had brought inflation down to levels of less than 12 per cent per annum, acquired foreign exchange reserves of more than US$ 8 billion, achieved sustained economic growth (32.4 per cent from 1992 to 1996), substantially decreased the

State's role in economic activity, become reintegrated into the international financial system and dismantled the main subversive groups. The social sector was beginning to show positive indicators. The UNDP Human Development Report 1996 indicated that Peru had improved its ranking, its index having increased from 0.600 in 1992 to 0.694 in 1996, an improvement of 15.7 per cent. Nevertheless, in 1996 nearly 18.7 per cent of Peru's population of 4,478,000 inhabitants were still living in extreme poverty; of these, 63.8 per cent were living in rural areas.

6. One important characteristic of Peru is its biological diversity, as reflected in the fact that 84 of the 108 biotopes that exist in the world can be found in Peru. This means that it has a diversity of species of fauna and flora which makes the country unique. In this regard, an important step was taken in 1996 with the establishment of the National Council on the Environment (CONAM).

7. The major challenge which the country will have to face in the coming years will probably be that of combining appropriate short-term economic management, plus the added dimension of having to overcome social problems, with a long-term approach directed at consolidating structural reforms and at reducing as far as possible the situation of poverty in which the majority of Peruvians live.

II. RESULTS AND LESSONS OF PAST COOPERATION

8. During the fifth programming cycle (1992-1996), UNDP administered a total of US$ 281.1 million, of which $6.8 million were its own resources and $274.3 were UNDP-administered resources from third parties. In terms of its institutional experience, in the fifth programming cycle its function changed from one of simply providing specialized technical assistance and transferring resources to one of providing advisory services at the highest decision-making levels. As a result, UNDP was subsequently entrusted with implementing programmes and projects linked to the economic adjustment programme, to the launching of an ambitious programme of structural reforms and to the implementation of a social compensation programme.

9. This change in the form of cooperation can be understood as a "strategic chain" designed to promote development activities, in which UNDP has generally started out by giving technical advice on the design of legal frameworks and strategies, has continued by establishing management instruments and has gone on to establish and consolidate the corresponding processes. Thus, at the Government's request, UNDP is helping to implement the privatization process, which involves the liquidation or sale of over 200 State corporations and which, to date, has yielded over US$ 6.5 billion and investment commitments of $4.8 billion. UNDP is also supporting the incorporation of the concept of human development into privatization activities, so that the Government channels part of the money raised through privatization towards the execution of social programmes in which UNDP also participates. Moreover, units responsible for supervising the billing, quality and coverage of the public services provided by privatized companies have been established with UNDP support.

10. Another example of a "strategic chain" is that of the design and launching of the first emergency social programmes, where UNDP played a decisive role in

involving the various protagonists of civil society in the formulation and execution of those programmes and in coordinating the support of the various international cooperation agencies. Subsequently, on this same basis, UNDP contributed to the design and execution of ordinary social compensation programmes by supporting the establishment of the Social Compensation and Development Fund (FONCODES).

11. The experience which UNDP gained in supporting FONCODES can be viewed as an important lesson for the design of new cooperation mechanisms. In this connection, UNDP has proposed innovative cooperation plans which seek to link up cooperation agencies, grass-roots populations and non-governmental organizations in a strategic chain with a view to coordinating and jointly programming activities in a specific geographical area. One example of this approach was the US$ 10 million Regional Emergency and Social Development Programme (PREDES) for the Inca population region, which was executed with contributions from four cooperation agencies and the Government. UNDP coordinated and bore technical responsibility for the execution of this project.

12. The coordinating role of UNDP on social issues of special importance was demonstrated when, in 1991 and 1992, large sectors of the rural population were affected by drought. On that occasion, UNDP proposed an innovative plan for dealing with a social emergency situation caused by a natural phenomenon, using international support, and managed to attract over US$ 40 million to alleviate the consequences of the drought for over 1,300,000 rural inhabitants.

13. The employment problems of young people (34 per cent of the unemployed are between 14 and 25 years of age) is another area where UNDP has helped to set up a "strategic chain". In cooperation with the International Labour Office and in coordination with the Government, UNDP promoted a youth employment project designed to generate employment for 150,000 young people, with the participation of private companies and training institutes.

14. UNDP worked with the Peruvian authorities to design programmes for the population (over 600,000 people) displaced by the subversive activities which devastated the country for more than a decade. Subsequently, the Government signed an agreement with UNDP for the administration of US$ 20 million raised through privatization and intended for the execution of three programmes: (i) Support for resettlement; (ii) A million rural inhabitants, to support the poorest rural inhabitants and those returning to the countryside through development activities to be carried out in the most depressed rural areas; and (iii) Provisional identity registration for displaced persons. In the case of the most marginalized sectors of society, it should also be noted that UNDP has begun a study on indigenous peoples in order to identify their problems and development alternatives.

15. With regard to the modernization of the State, UNDP was involved in various processes, including: the transformation of the customs administration into an efficient entity; the reorganization and computerization of the legislative branch; the introduction of a database in and the modernization of the procedures of the National Board of Elections; the establishment and launching of the process to modernize the education system; the adoption of a new legal basis and the reform of procedures for the administration of justice; the

initial reform of the judiciary and the public prosecutor's office; the formulation of the legal basis for the modernization of the agricultural sector; support for the establishment of environmental conservation institutions; and the launching of the Peruvian Promotion Commission.

16. In many instances, as already noted, UNDP ties with the international financial institutions enabled Peru to increase funding for, and the quantity and quality of, international cooperation programmes and projects. For example, UNDP efforts paved the way for cooperation between the Inter-American Development Bank (IDB) and Peru, together with UNDP, on projects relating to: the legislative branch (US$ 2.8 million), the agricultural sector (US$ 20.9 million), the judiciary (US$ 150,000) and the modernization of the executive branch (US$ 1 million). In addition, the World Bank channelled resources through UNDP for projects in the areas of education (US$ 1.2 million), privatization (US$ 47.7 million) and agriculture (US$ 2.7 million).

17. With respect to environmental conservation, UNDP supported the establishment of the National Council on the Environment (CONAM), which has bolstered Peru's capacity for developing projects to attract international financing in support of environmental measures proposed for various parts of the country.

III. PROPOSED STRATEGY AND THEMATIC AREAS

18. In the period 1997-2000, the objective of cooperation between UNDP and Peru will be to move permanently beyond emergency situations and consolidate conditions conducive to sustainable human development. Within this framework, UNDP will provide specialized advice and work with Peru on the various processes undertaken to achieve these ends.

19. UNDP proposes increased participation by civil society in the design and implementation of development activities, particularly in projects relating to population issues and institutional change within the framework of the targeted strategy to alleviate extreme poverty. Whereas during the preceding period (1992-1996) UNDP efforts were focused on short-term programmes to restructure the economy, during the period 1997-2000 UNDP action will be directed, taking a long-term approach, towards consolidating structural changes, enhancing governance and facilitating efforts to combat poverty, which still affects a large proportion of Peru's population.

20. UNDP will also work with the Government to prepare specific documents, policies and projects connected with commitments arising out of various international agreements, including those assumed at the World Summit for Social Development, the Fourth World Conference on Women and the United Nations Conference on Environment and Development. The Peruvian Government has identified these as important issues in its development policy. The establishment of the Ministry for the Advancement of Women and Human Development and the Government's goal of reducing poverty by 50 per cent by the year 2000 provide further opportunities for cooperation in connection with those international agreements.

21. It is necessary to maximize the advantages which UNDP offers as a neutral cooperation and coordination entity with the capacity to attract supplementary resources for projects proposed or already launched. UNDP will accord particular attention to Peru's current economic situation, to the structural features which define that situation and to the need to accelerate the innovative or corrective action, as the case may be, required to advance Peru's development. In its advisory capacity, UNDP will promote incorporation of the concept of sustainable human development and will take into account the need to strengthen conditions for enhancing governance.

22. UNDP also will help to secure financial resources for the implementation of programmes and projects. Thus, as was the case during the fifth cycle, UNDP will work with the Government to enhance the coordination of external cooperation. Steps also will be taken to strengthen the functioning of the resident coordinator system and coordination will be initiated at the local level with agencies of the United Nations system and the World Bank, to be followed later by other international donors. These efforts will not be confined to central planning and coordination, but will also involve other donors and United Nations agencies in specific UNDP programmes and projects.

23. In order to optimize its efforts, the UNDP office in Peru deems it important to ensure that its procedures are subject to ongoing periodic review in order to streamline and expedite administrative procedures and, in general, to contribute at all times to the flexible implementation of its projects, while maintaining the requisite follow-up, monitoring and record-keeping in respect of used resources.

A. Programming areas

24. UNDP proposes to work with the Government in the following areas: (a) consolidation of the modernization of the State; (b) strengthening of social development; (c) support for the reactivation of production; and (d) support for environmental and natural resources conservation. The specific features of each of these programming areas are as follows:

25. Consolidation of the modernization of the State: assistance in this area will focus on creating conditions for sustained growth, which will foster increased investment, job creation and improved services for the population. UNDP will attach particular importance to consolidating a new public sector which is imbued with a new mentality, is more committed to development and has modern management systems and efficient technical personnel capable of maximizing public resources and strengthening governance. UNDP will assist the central body responsible for the modernization of the executive branch, in the Office of the President of the Council of Ministers. UNDP will also continue to play a role in the modernization of the legislative branch; the consolidation of the new system for the administration of justice; the establishment of the new citizens' identification and registration system; and the consolidation of the new entity responsible for electoral processes. In addition, UNDP will promote closer ties among the various public sector bodies and among the various branches of the State. In this connection, since UNDP is currently cooperating with various civil service sectors, it will encourage the exchange and

dissemination of experiences which have proved most successful by convening round-table meetings, conferences, working meetings and the like. The relevant experiences of other countries with similar problems will also be shared with national bodies. With these objectives in mind, UNDP intends to help raise funds from other international agencies and to ensure their prompt utilization.

26. Strengthening of social development: UNDP will lend its support to increasing public social spending and combating extreme poverty throughout the country. It is hoped that social projects for which UNDP assistance is needed will be formulated with a broader impact in mind than that of purely providing assistance, and that they will be consolidated over the long term on the basis of new management criteria and new activities more closely linked to established production processes and to the development of settlements in the country's interior, especially those situated in areas affected by subversive violence and/or those which traditionally have been left relatively untouched by Peru's growth process. In this connection, UNDP will be involved in improving education, implementing programmes for the return of populations displaced by subversive violence, establishing rural telephone systems, training, youth employment and the activities of the new Ministry for the Advancement of Women and Social Development. UNDP will also help the social investment technical team of the Office of the President to become a forum for the exchange of ideas on poverty eradication and will promote the incorporation of the concepts of sustainable human development, advancement of women, rural communities, indigenous communities and demographic factors. In that regard, UNDP will help Peru to use resources generated by privatization and to raise and ensure the prompt use of additional funding from other international sources and from debt-for-social development swaps.

27. Support for the reactivation of production: UNDP will pay special attention to Government action to establish and restore the productive capacity of the agricultural sector, in order to incorporate large sectors of the rural population into the productive momentum of the rest of the economy, thereby gradually overcoming situations of poverty which have dragged on for centuries. Specifically, UNDP will cooperate in the drafting and application of legislation to modernize the agricultural sector, establish a market for land, upgrade irrigation and drainage systems, promote improved health controls, improve the management of water and soil and facilitate technological development. To support the activities of lower-income producers, UNDP will cooperate in designing, raising fund for and setting in motion a new funding body recently announced by the Government. With regard to the modern industrial sector, UNDP will continue to support the work of the Commission for Export Promotion (PROMPEX). UNDP will also support initiatives to involve the private sector in Government action to boost the development of several areas in the country's interior, in social programmes and in promoting the development of small businesses.

28. Support for environmental and natural resource conservation: UNDP participation is intended to consolidate the new institutions responsible for ensuring the conservation and restoration of the environment and to support national initiatives aimed at complying with international agreements. Moreover, UNDP will assist in raising international resources and preparing the corresponding environmental project proposals. Initially, it will cooperate in

formulating the definitive version of a project for in situ conservation of the biological diversity of Peru's indigenous wild plants, in implementing the binational project for the conservation of the Lake Titicaca ecosystem and in implementing projects to eliminate substances harmful to the ozone layer. Subsequently, assistance will be expanded to include areas such as deforestation, desertification, renewable energy sources, energy efficiency and transport. UNDP will also contribute to the formulation of production expansion approaches which do not conflict with action to prevent environmental degradation but rather maintaining Peru's biological diversity.

IV. MANAGEMENT ARRANGEMENTS

A. Execution

29. The national execution arrangement will continue to be used during the 1997-2000 technical cooperation programme, while not ruling out contributions from outside agencies, especially those of the United Nations system. UNDP will cooperate in determining which cases need specialized assistance or would benefit from the experience of other countries. It will promote increased participation by grass-roots community organizations and non-governmental organizations in the execution of projects carried out with UNDP assistance. UNDP considers that it would be ideal to have in each priority area one or two core programmes in which the desired results are clearly defined.

B. Monitoring and evaluation

30. UNDP believes that it is important to strengthen project design and monitoring. The following indicators will be used for the cooperation programme as a whole:

31. Consolidation of the modernization of the State. The following indicators will be determined: percentage of institutions which will have a new regulatory framework; percentage of institutions whose internal restructuring is complete; percentage of institutions which have new management systems in the areas of procurement, contracting, control, personnel, accounting and budget; start-up of new entities: National Registry of Civil Identity, National Office of Electoral Processes, Ministry for the Advancement of Women and Human Development, PROMPEX and the Ombudsman; number of corporations privatized, income from privatization, number of concessions granted, increase in the coverage of privatized public services and evolution of rates; reduction of at least 30 per cent in the duration of judicial proceedings; expansion of at least 20 per cent in the coverage of the judiciary and the Ombudsman.

32. Strengthening of social development. The following will be determined: percentage of unemployed young people placed in a job; new educational management systems designed and applied; percentage of persons displaced by subversive activities who return to their towns and villages of origin; percentage of undocumented persons who receive new identity documents; raising of at least US$ 100 million for new social programmes; human development indicators used in the analysis of the situation in Peru; number of districts in

situations of extreme poverty where development activities have been initiated; percentage of rural settlements provided with telephone service.

33. Support for the reactivation of production. The following will be determined: number of title deeds to agricultural land granted; upgrading of at least 10 irrigation and drainage systems in coastal areas; new system of health controls to approved international standards, in operation; establishment of a funding institution for the poorest sectors of the population, with loan repayment levels of over 80 per cent and a substantial presence in the country; number of new coordination mechanisms between the public and private sectors established to support exports.

34. Support for environmental and natural resource conservation. The following will be determined: local and regional bodies linked to CONAM which are carrying out environmental management activities; compliance with at least 70 per cent of the commitments made under the international conventions on desertification, biological diversity and climate change and the Montreal Protocol; completion of the programme for in situ conservation of biological diversity and identification of new opportunities for sustainable development; number of activities for the conservation of the Lake Titicaca ecosystem; level of use of clean technologies in the manufacture of domestic refrigerators and sprays; adoption of the legal framework for promoting investment in renewable energy sources; adoption of a national programme for the promotion of investments in renewable energy sources.

35. The programme of cooperation with Peru will be evaluated at mid-term and upon completion. Both the operational aspects and the impact of the programme will be analysed in these evaluations.

C. Resource mobilization

36. UNDP will continue to try and raise funds to supplement those contributed by itself and the Government. Moreover, UNDP hopes to strengthen relations with the multilateral financial agencies with a view to cooperating in the implementation of new programmes and projects.

37. Estimated resource mobilization for the period 1997-2000 is US$ 303.1 million, of which US$ 3.2 million will be UNDP resources and US$ 299.9 million will come from other sources. The annex provides a breakdown of these amounts.

Annex

RESOURCE MOBILIZATION TARGETS FOR PERU (1997-2000)

(In thousands of United States dollars)

Source	Amount	Comments
UNDP CORE FUNDS		
Estimated IPF available	209	
TRAC 1.1.1	2 843	Assigned immediately to country.
TRAC 1.1.2	0 to 66.7 per cent of TRAC 1.1.1	These percentages are presented for initial planning purposes only. The actual assignment will depend on the availability of high-quality programmes. Any increase in the range of percentages would also be subject to availability of resources.
SPPD/STS	187	
Subtotal	3 239[a]	
NON-CORE FUNDS		
Government cost-sharing	125 000	
Sustainable development funds:	10 850	
	of which:	
World Environment Fund	3 900	
Montreal Protocol	6 000	
Agenda 21	150	
Capacity 21	800	
Third-party cost-sharing	164 000	
Funds, trust funds and other resources	-	
Subtotal	299 850	
GRAND TOTAL	303 089[a]	

[a] Not inclusive of TRAC 1.1.2, which is allocated regionally for subsequent country application.

Abbreviations: IPF = indicative planning figure; SPPD = support for policy and programme development; STS = support for technical services; and TRAC = target for resource assignments from the core.